

Ms. Trish Kelly, Reimbursement Manager
Integrated Health Services
10065 Red Run Boulevard
Owings Mills, Maryland 21117

Re: AC# 3-IHC-L5 – Inman Healthcare, Inc.

Dear Ms. Kelly:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period June 1, 1995 through November 30, 1995. That report was used to set the rate covering the contract periods beginning December 1, 1995.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

INMAN HEALTHCARE, INC.

INMAN, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING DECEMBER 1, 1995
AC# 3-IHC-L5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 22, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Inman Healthcare, Inc., for the contract periods beginning December 1, 1995 and for the six month cost report period ended November 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Inman Healthcare, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Inman Healthcare, Inc. dated as of June 1, 1995 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 22, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

INMAN HEALTHCARE, INC.
Computation of Rate Change
For the Contract Periods
Beginning December 1, 1995
AC# 3-IHC-L5

	<u>12/01/95-</u> <u>03/31/96</u>	<u>04/01/96-</u> <u>09/30/96</u>	<u>10/01/96-</u> <u>03/31/97</u>	<u>04/01/97-</u> <u>09/30/97</u>
Interim reimbursement rate (1)	\$83.05	\$83.05	\$81.86	\$83.06
Adjusted reimbursement rate	<u>75.88</u>	<u>75.88</u>	<u>75.96</u>	<u>75.96</u>
Decrease in reimbursement rate	\$ <u>7.17</u>	\$ <u>7.17</u>	\$ <u>5.90</u>	\$ <u>7.10</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

INMAN HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period December 1, 1995 Through March 31, 1996
AC# 3-IHC-L5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.05	\$36.06	\$43.55	\$36.06
Dietary	<u>.38</u>	<u>9.81</u>	<u>10.19</u>	<u>9.81</u>
Subtotal	<u>\$3.43</u>	45.87	53.74	45.87
Laundry/Housekeeping/Maint.	\$ -	8.28	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>9.65</u>	<u>7.58</u>	<u>7.58</u>
Subtotal	<u>\$ -</u>	63.80	<u>\$68.49</u>	60.62
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		-		-
Medical Supplies & Oxy.		2.21		2.21
Taxes and Insurance		.62		.62
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$68.76</u>		65.58
Inflation Factor (6.30%)				4.13
Cost of Capital				6.65
Cost of Capital Limitation				(1.98)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				3.43
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(1.93)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$75.88</u>

INMAN HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1996 Through September 30, 1996
AC# 3-IHC-L5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.54	\$36.06	\$50.61	\$36.06
Dietary	<u>.38</u>	<u>9.81</u>	<u>10.19</u>	<u>9.81</u>
Subtotal	<u>\$3.92</u>	45.87	60.80	45.87
Laundry/Housekeeping/Maint.	\$ -	8.28	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>9.65</u>	<u>7.58</u>	<u>7.58</u>
Subtotal	<u>\$ -</u>	63.80	<u>\$75.55</u>	60.62
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		-		-
Medical Supplies & Oxy.		2.21		2.21
Taxes and Insurance		.62		.62
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$68.76</u>		65.58
Inflation Factor (6.30%)				4.13
Cost of Capital				6.65
Cost of Capital Limitation				(1.98)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				3.92
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(2.42)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$75.88</u>

INMAN HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-IHC-L5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.86	\$36.06	\$40.81	\$36.06
Dietary	<u>.64</u>	<u>9.81</u>	<u>10.45</u>	<u>9.81</u>
Subtotal	<u>\$3.50</u>	45.87	51.26	45.87
Laundry/Housekeeping/Maint.	\$ -	8.10	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>9.69</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	<u>\$ -</u>	63.66	<u>\$66.25</u>	60.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		-		-
Medical Supplies & Oxy.		2.44		2.44
Taxes and Insurance		.62		.62
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$68.85</u>		66.05
Inflation Factor (4.90%)				3.24
Cost of Capital				6.69
Cost of Capital Limitation				(2.02)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				3.50
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(1.75)
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$75.96</u>

INMAN HEALTHCARE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-IHC-L5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.07	\$36.06	\$43.87	\$36.06
Dietary	<u>.64</u>	<u>9.81</u>	<u>10.45</u>	<u>9.81</u>
Subtotal	\$ <u>3.71</u>	45.87	54.32	45.87
Laundry/Housekeeping/Maint.	\$ -	8.10	7.17	7.17
Administration & Med. Rec.	<u>-</u>	<u>9.69</u>	<u>7.82</u>	<u>7.82</u>
Subtotal	\$ <u>-</u>	63.66	\$ <u>69.31</u>	60.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.00		2.00
Special Services		-		-
Medical Supplies & Oxy.		2.44		2.44
Taxes and Insurance		.62		.62
Legal Fees		<u>.13</u>		<u>.13</u>
TOTAL		<u>\$68.85</u>		66.05
Inflation Factor (4.90%)				3.24
Cost of Capital				6.69
Cost of Capital Limitation				(2.02)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				3.71
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(1.96)
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$75.96</u>

INMAN HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1995
For the Contract Periods December 1, 1995 Through September 30, 1996
AC# 3-IHC-L5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$289,336	\$13,088 (1)	\$ 6,566 (4) 34,091 (5) 2,640 (5)	\$259,127
Dietary	76,883	-	6,356 (5)	70,527
Laundry	28,283	1,642 (2)	1,317 (5)	28,608
Housekeeping	17,254	-	1,552 (5)	15,702
Maintenance	16,371	-	1,196 (5)	15,175
Administration & Medical Records	65,655	6,566 (4)	2,848 (5)	69,373
Utilities	14,393	-	-	14,393
Special Services	-	-	-	-
Medical Supplies & Oxygen	31,426	-	13,088 (1) 1,642 (2) 789 (3)	15,907
Taxes & Insurance	4,444	-	-	4,444
Legal Fees	928	-	-	928
Cost of Capital	<u>48,211</u>	<u>13</u> (3)	<u>460</u> (6)	<u>47,764</u>
Subtotal	593,184	21,309	72,545	541,948

INMAN HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1995
For the Contract Periods December 1, 1995 Through September 30, 1996
AC# 3-IHC-L5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	9,055	-	-	9,055
Non-Allowable	(32,423)	50,000 (5)	-	18,037
	<u> </u>	<u>460 (6)</u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$569,816</u>	<u>\$71,769</u>	<u>\$72,545</u>	<u>\$569,040</u>
TOTAL BEDS <u>40</u>		TOTAL PATIENT DAYS <u>7,186</u>		

INMAN HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1995
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-IHC-L5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$289,336	\$13,088 (1)	\$ 6,566 (4) 34,091 (5) 2,640 (5)	\$259,127
Dietary	76,883	-	6,356 (5)	70,527
Laundry	28,341	-	1,317 (5)	27,024
Housekeeping	17,254	-	1,552 (5)	15,702
Maintenance	16,683	-	1,196 (5)	15,487
Administration & Medical Records	65,900	6,566 (4)	2,848 (5)	69,618
Utilities	14,393	-	-	14,393
Special Services	-	-	-	-
Medical Supplies & Oxygen	31,426	-	13,088 (1) 789 (3)	17,549
Taxes & Insurance	4,444	-	-	4,444
Legal Fees	928	-	-	928
Cost of Capital	<u>48,532</u>	<u>13</u> (3)	<u>446</u> (7)	<u>48,099</u>
Subtotal	594,120	19,667	70,889	542,898

INMAN HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1995
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-IHC-L5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	9,055	-	-	9,055
Non-Allowable	(58,551)	50,000 (5) <u>446 (7)</u>	-	(8,105)
Total Operating Expenses	<u>\$544,624</u>	<u>\$70,113</u>	<u>\$70,889</u>	<u>\$543,848</u>
TOTAL BEDS <u>40</u>		TOTAL PATIENT DAYS <u>7,186</u>		

INMAN HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended November 30, 1995
AC# 3-IHC-L5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nursing Medical Supplies	\$13,088	\$13,088
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Laundry Medical Supplies	1,642	1,642
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
	(This adjustment applies only to the contract periods 12/1/95 - 9/30/96)		
3	Fixed Assets Cost of Capital Accumulated Depreciation Medical Supplies	789 13	13 789
	To capitalize equipment HIM-15-1, Section 108.1		
4	Administration Nursing	6,566	6,566
	To reclassify salary expense to the proper cost center HIM-15-1, Section 2304		
5	Nonallowable Nursing Restorative Dietary Laundry Housekeeping Maintenance Administration	50,000	34,091 2,640 6,356 1,317 1,552 1,196 2,848
	To adjust health and welfare insurance to allowable HIM-15-1, Section 2162.9		

INMAN HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended November 30, 1995
AC# 3-IHC-L5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Cost of Capital	460	460
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the contract periods 12/1/95 - 9/30/96)		
7	Nonallowable Cost of Capital	446	446
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the contract periods 10/1/96 - 9/30/97)		
	TOTAL ADJUSTMENTS	<u>\$73,004</u>	<u>\$73,004</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

INMAN HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended November 30, 1995

For the Contract Periods December 1, 1995 Through September 30, 1996

AC# 3-IHC-L5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.9778</u>
Deemed Asset Value (Per Bed)	30,889
Number of Beds	<u>40</u>
Deemed Asset Value	1,235,560
Improvements Since 1981	114,513
Accumulated Depreciation at 11/30/95	<u>(166,375)</u>
Deemed Depreciated Value	1,183,698
Market Rate of Return	<u>0.072</u>
Total Annual Return	<u>85,226</u>
Adjust For Cost Report Period 183/365	42,730
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	42,730
Depreciation Expense	5,890
Amortization Expense	60
Capital Related Income Offsets	(916)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	47,764
Total Patient Days (Minimum 97% Occupancy)	<u>7,186</u>
Cost of Capital Per Diem	\$ <u><u>6.65</u></u>

INMAN HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended November 30, 1995

For the Contract Periods December 1, 1995 Through September 30, 1996

AC# 3-IHC-L5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$.68
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>4.67</u>
Reimbursable Cost of Capital Per Diem	\$ 4.67
Cost of Capital Per Diem	<u>6.65</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.98)</u>

INMAN HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 1995
For the Contract Periods October 1, 1996 Through September 30, 1997
AC# 3-IHC-L5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>40</u>
Deemed Asset Value	1,278,920
Improvements Since 1981	114,513
Accumulated Depreciation at 11/30/95	<u>(166,375)</u>
Deemed Depreciated Value	1,227,058
Market Rate of Return	<u>0.070</u>
Total Annual Return	<u>85,894</u>
Adjust For Cost Report Period 183/365	43,065
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	43,065
Depreciation Expense	5,890
Amortization Expense	60
Capital Related Income Offsets	(916)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	48,099
Total Patient Days (Minimum 97% Occupancy)	<u>7,186</u>
Cost of Capital Per Diem	\$ <u><u>6.69</u></u>

INMAN HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended November 30, 1995

For the Contract Periods October 1, 1996 Through September 30, 1997

AC# 3-IHC-L5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$.68
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>4.67</u>
Reimbursable Cost of Capital Per Diem	\$ 4.67
Cost of Capital Per Diem	<u>6.69</u>
Cost of Capital Per Diem Limitation	\$ <u>(2.02)</u>